

Message Text

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ACTION EB-11

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SUBJECT: FOREIGN GOVERNMENT SUBSIDIES TO FOREIGN AIRLINES

REF: STATE 162608

1. FOLLOWING INFO IS KEYED TO PARAS 1(A)-1(K) REFTEL.

A. EXPECTATION AT TIME ALITALIA WAS ESTABLISHED IN 1946 WAS THAT IT WOULD SHOW A PROFIT ON ITS OPERATIONS. IN FACT, DURING PERIOD 1947-73 IT HAS SHOWN ANNUAL PROFITS 18 TIMES AND LOSSES 9 TIMES. ALITALIA IS CORPORATION, OWNED 75.5 PERCENT BY GOI ENTITY IRI-ISTITUTO PER LA RICOSTRUZIONE INDUSTRIALE--AND 24.5 PERCENT BY PRIVATE INVESTORS, WHOSE SHARES ARE QUOTED ON ITALIAN STOCK EXCHANGES. IN ADDITION TO ITS INITIAL SHARE CAPITAL, ALITALIA FLOATED BONDS IN THE FINANCIAL MARKET IN 1956.

B. TO DATE ALITALIA HAS RECEIVED NO RPT NO DIRECT LOANS FROM GOI, BOI OR OTHER GOVT ENTITIES. HOWEVER, ALITALIA IS NOW ASKING FOR \$100 MILLION FINANCIAL ASSISTANCE FROM GOI, WHICH IT WOULD PREFER IN FORM OF INTEREST-FREE LOAN WITH NO RPT NO FIXED REPAYMENT SCHEDULE. THIS REQUEST HAS NOT RPT NOT YET BEEN ACTED UPON BY GOI.

C. ALITALIA LOANS FOR NEW EQUIPMENT (SUPPLIED BY US AEROSPACE INDUSTRY) ARE GUARANTEED BY IRI AND USUALLY ARRANGED WITH US EX-IM BANK PARTICIPATION.

D. WITHIN GOI IS MINISTRY FOR TOURISM, WHICH SUPERVISES NATIONAL TOURIST AGENCY ENIT (ENTE NAZIONALE ITALIANO PER IL TURISMO). AT
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PRESENT ALITALIA IS NOT RPT NOT INVOLVED IN ANY JOINT TOURIST PROMO-

TION EFFORT; IT BELIEVES ITS OWN INDEPENDENT PROMOTIONAL EFFORTS ARE FAR SUPERIOR. HOWEVER, AIRCRAFT PICTURES IN GOI PROMOTIONAL MATERIAL NEARLY ALWAYS SHOW ALITALIA EQUIPMENT.

E. NEITHER ENIT NOR MINISTRY TOURISM FINANCE GIVE-AWAY PACKAGES. IN PAST, SICILIAN REGIONAL GOVERNMENT HAS UNDERWRITTEN SOME TRANSPORT A-

TION AND/OR LODGING EXPENSES OF NON-ITALIAN TOURISTS, PROVIDED THE TOURIST TRAVELED TO SICILY ON AN ITALIAN CARRIED. (NO US CARRIERS SERVE SICILY.)

F. GOI PAYS UPU MAIL RATES TO ALL RPT ALL CARRIERS. ALTHOUGH ALITALIA CARRIES BULK OF ITALIAN ORIGIN MAIL TO US, US CARRIERS ALSO PARTICIPATE IN THIS CARRIAGE.

G. AS FAR AS EMBASSY CAN DETERMINE, GOI DOES NOT RPT NOT PAY ARBITRARY OR ARTIFICIALLY HIGH RATES FOR CARRIAGE OF MILITARY CARGO.

H. AS DEPARTMENT AWARE, ALITALIA HAS LONG BEEN EXEMPTED FROM PAYMENT OF LANDING/TAKEOFF FEES AT ROME AIRPORTS. THIS EXEMPTION IS TO BE ELIMINATED IN NEAR FUTURE, AT WHICH TIME STANDARD RATES, I.E., THOSE PAID BY USS CARRIERS, WILL APPLY TO ALITALIA. AT PRESENT THERE ARE NO SEPARATE FEES FOR AIR TRAFFIC CONTROL SERVICES. ALITALIA HAS SEPARATE CUSTOMS PROCESSING AREA AT ROME/FIUMICINO AIRPORT AND ABSORBS CUSTOMS FEES (INSTEAD OF PASSING THEM ON) FOR ITS AIR FREIGHT CUSTOMERS.

I. ALITALIA HAS ITS OWN CREW TRAINING PROGRAM. HOWEVER, MOST ALITALIA FLIGHT CREW PERSONNEL ARE FORMER ITALIAN AIR FORCE MEMBERS WHO JOIN ALITALIA IMMEDIATELY UPON COMPLETION OF THEIR MILITARY SERVICE.

J. ALTHOUGH ITALIAN LAW WOULD PERMIT THE PAYMENT OF SUBSIDIES FOR DOMESTIC TRANSPORT PERFORMED BY ALITALIA--LAW NO. 3176 OF OCTOBER 18, 1923--THIS AUTHORITY HAS NOT RPT NOT BEEN UTILIZED; ALITALIA HAS NOT RPT NOT RECEIVED SUCH SUBSIDIES.

K. EXCEPT FOR 16 CARAVELLES SCHEDULED FOR REPLACEMENT, THE ENTIRE ALITALIA FLEET CONSISTS OF US AIRCRAFT: 5 BOEING 747; 4 DC-10; 21 DC-8;

AND 35 DC-9. THERE ARE NO RPT NO COMPARABLE ITALIAN MANUFACTURED AIRCRAFT AND HENCE NO NEED FOR ANY INCENTIVE SYSTEM TO ENCOURAGE ALITALIA TO USE DOMESTICALLY PRODUCED AIRCRAFT.

2. ALITALIA NEEDS AND HAS REQUESTED FINANCIAL ASSISTANCE FROM GOI. IT IS THEREFORE POSSIBLE THAT ONE OR MORE FORMS OF SUBSIDY NOT CURRENTLY

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UTILIZED MAY BE INTRODUCED. THE EMBASSY WILL INFORM THE DEPARTMENT OF SUCH DEVELOPMENTS AS THEY OCCUR. VOLPE

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